

2016-17 ANNUAL REPORT BY NRS AUDIT and RISK COMMITTEE

1. Executive summary

1.1 The Audit and Risk Committee (the Committee) of NRS completed its programme of work for 2016-17 and was satisfied that the range of assurances and evidence of effective internal controls supplied to the Committee were robust, had integrity, and were sufficiently reliable to provide overall assurance and support to the Accountable officer and to the Management Board in their financial stewardship responsibilities.

1.2 Sources of assurance considered by the Committee during the year include reports from the external auditors, internal auditors, objective scrutiny of risk management systems, and internal controls reports received from management.

1.3 The Committee was satisfied with the quality and relevance of the reports it received from both the external auditors and internal auditors.

2. Purpose of the Committee

2.1 The Committee has been appointed to provide independent advice and support to the Accountable Officer of NRS in delivering his responsibilities for issues of risk, internal controls and governance.

2.2 The Committee operates by providing robust constructive challenge and scrutiny to support the Accountable Officer, including reviewing the effectiveness of internal controls, risk management arrangements, financial information, and the integrity and independent audit of the Annual Report and Accounts.

2.3 The Committee carries out a planned schedule of four meetings per year, in accordance with good practice, but may convene additional meetings if necessary. The quorum is a minimum of three NED members.

3. Duties of the Committee

The key duties as set out in its Terms of Reference, are:

- The strategic processes of risk, control and governance;
- The accounting policies and the accounts of the NRS;
- The plans, activities and results of both Internal and External Audit activity;
- The adequacy of NRS' responses to issues identified by audit activity or by Parliamentary Committees, where they affect NRS' overall performance
- Other sources of assurance relating to corporate governance and performance of NRS, including interpretation and implementation of

guidance from the Scottish Public Finance Manual (SPFM) and other relevant sources.

3.1 The Committee primarily utilises work of internal audit, external audit and other sources of assurance, but will not limit itself to these sources. It will also seek reports and assurances from NRS as appropriate, concentrating on the over-arching systems of governance, risk management and internal control, together with indicators of their effectiveness.

3.2 The Committee can also recommend to the Accountable Officer issues of concern and/or opportunity it deems appropriate to bring to the attention of the Management Board.

4. Membership and meetings

4.1 A number of committee members left in 16 February 2017 at the end of their terms of appointment.

- Ian Doig, Committee Chair and NED Management Board member. (Formerly CIPFA Director for Scotland and Chartered Public Finance Accountant).
- John Aldridge, Independent External member. (Formerly Scottish Government Director General - Finance).
- Michael Moss, NED Management Board member and Committee member. (Research Professor in archival studies in the Humanities Advanced Technology and information Institute at the University of Glasgow).

4.2 Retained Members

- Colin Ledlie, NED Management Board member and Committee member. Appointed Committee Chair from 17/02/17. (Actuary, with wide business experience)
- Mandy Gallacher, NED Management Board member and Committee member. (Mandy Gallacher Consultancy Ltd)
- Gordon Shipley, NED Management Board member and Committee member. (Home Office, and formerly London 2012 Olympic Delivery Authority)
- Bill Matthews, NED Management Board member and Committee member. (BBC Trustee, with wide governance and security industry experience)

4.3 Other regular attenders were NRS Chief Executive, NRS Accountable Officer, NRS Head of Business Portfolio, NRS Finance Business Partner, External Auditors (Audit Scotland) and Internal Auditors (Scottish Government Internal Audit Division)

4.4 Penni Rocks (NRS Accountable Officer) resigned from NRS on 27 January 2017 and was replaced on the same day as NRS Accountable Officer by Steven Hanlon on an interim basis.

5. External Audit (Audit Scotland) activities

5.1 External audit provide a significant independent test of the financial integrity, effectiveness of internal controls and robustness of sources of assurance at NRS. The 2016-17 audit plan had the following dimensions:

- Audit of the 2016/17 financial statements
- Financial management
- Financial sustainability
- Governance and transparency
- Value for money

5.2 The main review activities carried out were:

- an interim audit of the National Records of Scotland's main financial systems and governance arrangements.
- an audit of the National Records of Scotland's 2016/17 annual report and accounts including the issue of an independent auditor's report.
- a review of NRS' arrangements in relation to the audit dimensions noted above.

5.3 The Committee received regular progress reports from Audit Scotland against the audit plan which culminated in Audit Scotland's 2016-17 Annual Audit Report which was considered on 31 August 2017.

5.4 The Committee was pleased to record that Audit Scotland had determined that the financial statements of NRS for 2016/17 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

6. Internal Audit (Scottish Government Internal Audit Division) activities

6.1 Internal Audit focus on key activities which are relevant to NRS's business purpose and objectives and audits are designed to ensure an independent opinion on the adequacy of governance, risk management and internal control arrangements is provided.

6.2 The 2016-17 audit plan comprised reviews of:

- Information Handling/Security
- People Engagement
- Assurance Mapping
- Contract Management (follow-up from 2015-16)
- ITSoL (IT solutions) programme (follow-up from 2015-16)

6.3 The Committee received regular progress reports from Internal Audit against the audit plan, considering recommendations made to NRS and the

response to these including monitoring implementation of recommendations by NRS throughout the year.

7. Budget Monitoring Activities

7.1 The Committee regularly scrutinised budget-monitoring reports during the year, which reported projected outturns against the budgets approved by the Management Board and Scottish Government limits.

8. Risk Management Activities

8.1 The Committee regularly reviewed reports by management during the year on key strategic risks and operational risks. The Committee reviewed the effectiveness of risk management systems, internal controls and management systems.

9. Effectiveness of the Committee

9.1 The Committee has been fortunate in having a wide range of experience amongst its members, which enables constructive challenge and effective scrutiny of financial issues, audit and risks.

9.2 The Committee annually reviews the effectiveness of its own operations, in line with good practice, using the “Audit Committee Self-Assessment Checklist” contained in the Scottish Government’s Audit Committee Handbook.